

REPORT OF
FINANCIAL EXAMINATION

**THE BAR PLAN MUTUAL
INSURANCE COMPANY**

AS OF
December 31, 2002



STATE OF MISSOURI
DEPARTMENT OF INSURANCE
JEFFERSON CITY, MISSOURI

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May 28, 2004
St. Louis, Missouri

Honorable Alfred W. Gross, Commissioner
Bureau of Insurance
Commonwealth of Virginia
Chairperson, Financial Condition (E) Committee, NAIC

Honorable Sally McCarty, Commissioner
Indiana Department of Insurance
Secretary, Midwestern Zone, NAIC

Honorable Scott B. Lakin, Director
Missouri Department of Insurance
301 West High Street, Room 530
Jefferson City, Missouri 65101

Lady and Gentlemen:

In accordance with your financial examination warrant, a full scope association financial examination has been made of the records, affairs and financial condition of

THE BAR PLAN MUTUAL INSURANCE COMPANY

also referred to as the "Company." The Company's administrative office is at 1717 Hidden Creek Court, St. Louis, Missouri 63131, telephone number (314) 965-3333. This examination began on February 2, 2004, and concluded May 28, 2004.

SCOPE OF EXAMINATION

Period Covered

The prior full scope association financial examination of The Bar Plan Mutual Insurance Company was as of December 31, 1999, and was conducted by examiners from the state of Missouri, representing the Midwestern Zone of the National Association of Insurance Commissioners (NAIC).

The current full scope association financial examination covers the period from January 1, 2000, to December 31, 2002, and was conducted by examiners from the state of Missouri representing the Midwestern Zone of the NAIC. Reserves and related actuarial items were reviewed by the firm of Taylor-Walker & Associates, Inc., Consulting Actuaries, pursuant to a contract with the Missouri Department of Insurance.

This examination also included material transactions and/or events occurring after December 31, 2002.

Procedures

This examination was conducted using the guidelines set forth in the Financial Condition Examiners Handbook of the NAIC, except where practices, procedures and applicable regulations of the Missouri Department of Insurance and statutes of the state of Missouri prevailed.

The workpapers of the Company's independent auditors for 2002 were made available to the examiners. Standard examination procedures were modified as deemed appropriate under the circumstances.

Comments – Previous Examination

The previous examination report did not include any general comments and/or recommendations.

HISTORY

General

The Company's Articles of Association were approved by the Missouri Secretary of State on November 21, 1985, for the purpose of forming a corporation under Chapter 383 RSMo (Malpractice Insurance). The Company (originally named The Bar Plan) was issued its Missouri Certificate of Authority to commence business on January 7, 1986, and has been licensed since that date.

In 1984, the Missouri Bar Association formed a union with Northwestern National Casualty Company of Milwaukee, Wisconsin to provide lawyers professional liability insurance with primarily London reinsurers. The program was serviced by Rollins Burdick Hunter of St. Louis, Missouri, which acted as the administrator. Northwestern National was to act as the "fronting company" for this program and all losses were to be passed through directly to the reinsurers with no liability to the Missouri Bar. Because the conditions changed so rapidly in the lawyers professional liability marketplace, Northwestern National refused to front the program beyond January 1, 1986. The Missouri Bar then decided to form The Bar Plan under Chapter 383 RSMo (Malpractice Insurance). The association used the same reinsurers and administrative services through Rollins Burdick Hunter. Effective January 1, 1987, The Bar Plan severed its administrative relationship with Rollins Burdick Hunter.

Effective January 1, 1991, the Articles of Association were restated to convert the Company from an association under Chapter 383 RSMo (Malpractice Insurance) to a nonassessable mutual insurance company under Chapter 379 RSMo (Insurance Other Than Life) and to change the Company name to The Bar Plan Mutual Insurance Company.

Dividends

In 1993, the Company began making partial refunds to the policyholders of the initial capital assessments. These initial assessments were charged to new policyholders and recorded in the annual statement as policyholder contributions to special surplus funds. The refunds are being paid when the policyholder has been insured continuously for five years.

Capital contribution refunds were \$91,900 in 2000, \$66,800 in 2001 and \$51,500 in 2002.

Management

The Board of Directors consists of nine members duly elected at an annual meeting of the policyholders as authorized by the Company's Bylaws. The directors duly elected and serving as of December 31, 2002, were as follows:

<u>Name and Address</u>	<u>Business Affiliation</u>
David E. Larson, Chair Kansas City, MO	Larson & Larson
Jerome E. Brant, Vice Chair Liberty, MO	Withers, Brant, Igoe & Mullennix, P.C.
James E. Baldwin Lebanon, MO	Donnelly, Baldwin & Wilhite, P.C.
Sherry L. Doctorian Jefferson City, MO	Armstrong, Teasdale L.L.P.
Ann P. Hagan Mexico, MO	Hagan, Hamlett & Maxwell, L.L.C.
Kent O. Hyde Springfield, MO	Hyde, Love & Overby, L.L.P.
Walter R. Lamkin Chesterfield, MO	Husch & Eppenberger, LLC
Richard G. Steele Cape Girardeau, MO	Bradshaw, Steele, Cochrane & Berens
Dennis L. Gillen Wichita, KS	DePew and Gillen, L.L.C.

Committees of the Board of Directors as of December 31, 2002, were as follows:

<u>Executive</u>	<u>Claims</u>	<u>Reinsurance</u>	<u>Operations</u>
David E. Larson *	David E. Larson *	Kent O. Hyde *	Ann P. Hagan *
Jerome E. Brant	Dennis L. Gillen	James E. Baldwin	James E. Baldwin
Richard G. Steele	Kent O. Hyde	Sherry L. Doctorian	Sherry L. Doctorian
Ann P. Hagan	Walter R. Lamkin	Walter R. Lamkin (Ex officio)	Dennis L. Gillen

<u>Long Range Planning</u>	<u>Audit</u>	<u>Finance & Investment</u>
Ann P. Hagan *	Jerome E. Brant *	Walter R. Lamkin *
Jerome E. Brant	James E. Baldwin	Ann P. Hagan
David E. Larson	Richard G. Steele	Jerome E. Brant
		Richard G. Steele

* Committee Chair

The officers elected and serving as of December 31, 2002, were as follows:

<u>Name</u>	<u>Office</u>
David E. Larson	Chair
Jerome E. Brant	Vice Chair
Karen R. McCarthy	President
Ann P. Hagan	Secretary
Richard G. Steele	Treasurer
Mark B. Berry	Vice President
Geralyn E. Kaestner	Vice President
Gregory H. Klaus	Vice President
Cynthia L. Pulvirenti	Vice President
Gayle E. Tegtmeier	Vice President

Conflict of Interest

Conflict of Interest Disclosure Statements are executed annually by all directors and officers of the Company. A review of the statements for the years under examination did not disclose any material conflicts.

Corporate Records

A review was made of the Articles of Association and Bylaws of the Company. Neither the Articles of Incorporation nor the Bylaws were amended during the period being examined.

The minutes of the meetings of the Policyholders and Board of Directors were also reviewed for the period under examination. The minutes appeared to properly document and approve applicable corporate events and transactions. It was noted that the examination report as of December 31, 1999, was reviewed and accepted by the Company's Board of Directors.

Acquisitions, Mergers, and Major Corporate Events

None.

Surplus Debentures

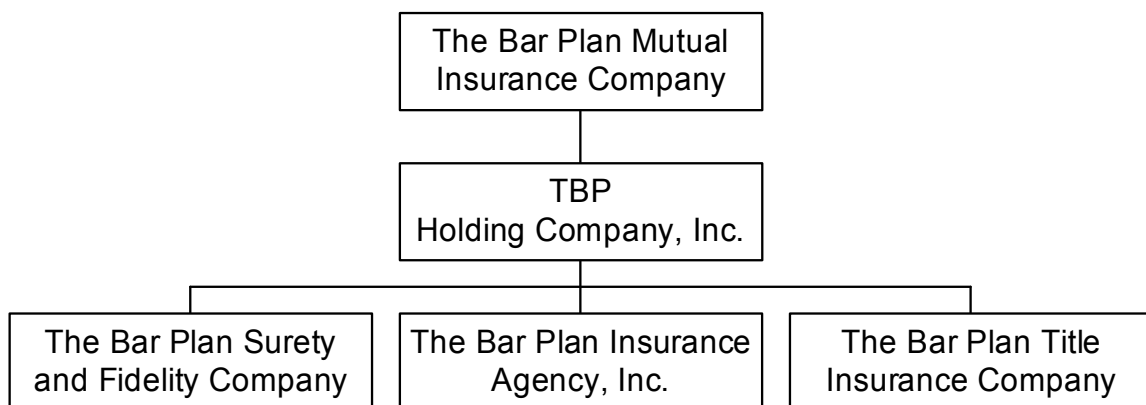
None.

AFFILIATED COMPANIES**Holding Company, Subsidiaries and Affiliates**

The Company is the ultimate controlling person of an Insurance Holding Company System as defined by Section 382.010 RSMo (Definitions).

Organizational Chart

The following organizational chart depicts the Insurance Holding Company System as of December 31, 2002. All entities are organized in Missouri and all subsidiaries are wholly owned.



On December 31, 2003, TBP Holding Company, Inc. sold all the outstanding common stock of The Bar Plan Title Insurance Company to Reliant Holding Company of Prairie Village, Kansas. At that time, The Bar Plan Title Insurance Company changed its name to Guarantee Title Insurance Company.

Intercompany Transactions

Administrative and Management Services Agreement

Under an Administrative Services Agreement dated April 8, 1997, The Bar Plan Mutual Insurance Company agrees to provide sufficient staff and other resources to perform the general administrative tasks of The Bar Plan Title Insurance Company for compensation of \$7,500 per month. The Company received \$90,000 per year in 2000 to 2002 for services provided under the agreement.

Risk Management and Marketing Services Agreement

Under a Risk Management and Marketing Services Agreement dated April 8, 1997, The Bar Plan Title Insurance Company agrees to provide sufficient staff to perform the general risk management and marketing services required by The Bar Plan Mutual Insurance Company relating to the insurance business conducted by The Bar Plan Mutual Insurance Company for compensation of \$7,500 per month. The Company paid \$90,000 per year in 2000 to 2002 for services received under the agreement.

Administrative and Management Services Agreement

Under an Administrative Services Agreement dated December 31, 1998, the Company agrees to provide sufficient staff and other resources to perform the general administrative tasks of The Bar Plan Surety and Fidelity Company. Compensation was \$5,000 per month until April 1, 2001, when the compensation was reduced to \$3,500 per month. The Company received \$60,000, \$46,500 and \$42,000 in 2000, 2001 and 2002, respectively, under the agreement.

Claims Services Agreement

Under Claims Services Agreements, the Company agrees to provide sufficient staff and other resources to perform claims management services for The Bar Plan Surety and Fidelity Company and The Bar Plan Title Insurance Company for compensation at the rate of \$75.00 per hour. The Company received \$5,686 in 2001 and \$9,766 in 2002 under the two agreements.

Tax Allocation Agreement

The Bar Plan Mutual Insurance Company and its subsidiaries entered into a Tax Allocation Agreement under which the parties agree to file consolidated Federal Income Tax Returns for 1995 and each subsequent tax period for which a consolidated return is required or permitted. The consolidated tax liability for each year shall be apportioned among the parties in accordance with the ratio, which that portion of the consolidated taxable income attributable to each party having taxable income bears to the consolidated taxable income.

FIDELITY BOND AND OTHER INSURANCE

The Company is insured under an office package policy that includes crime coverage (Form A – Employee Dishonesty) with limits of \$500,000 and a deductible of \$250 per loss. This coverage complies with the suggested minimum amount of fidelity insurance according to the NAIC guidelines.

The Company is also insured under the following coverages:

- Workers' Compensation and Employers Liability
- Commercial General Liability including Umbrella
- Building including Accounts Receivable, Valuable Papers, Computer Equipment, Data & Media, Loss of Income & Extra Expense, Duplicate and Backup Data/Media, Fine Arts and Transit
- Commercial Automobile
- Employment Practices Liability
- Directors and Officers Liability
- Insurance Company Professional Liability

PENSION, STOCK OWNERSHIP AND INSURANCE PLANS

The Company provides typical employee benefits including a group health plan, a group dental plan, group life insurance, short and long term disability and a profit sharing and 401(k) savings plan. The financial statements include provision for the Company's obligations under such plans.

STATUTORY DEPOSITS

Deposits with the State of Missouri

The funds on deposit with the Missouri Department of Insurance as of December 31, 2002, as reflected below, were sufficient in par and market value to meet the deposit requirement for the state of Missouri in accordance with Section 379.098 RSMo (Securities deposit).

<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
US Treasury Note	\$ 1,600,000	\$ 1,718,000	\$ 1,679,332
St Louis County MO Mtg Revenue	500,000	559,140	500,000
Jackson County MO CSD	<u>500,000</u>	<u>554,395</u>	<u>528,989</u>
Total	<u>\$ 2,600,000</u>	<u>\$ 2,831,535</u>	<u>\$ 2,708,321</u>

Deposits with Other States

The Company also has funds on deposit with various other states. Those funds on deposit as of December 31, 2002, were as follows:

<u>State</u>	<u>Security</u>	<u>Par Value</u>	<u>Market Value</u>	<u>Statement Value</u>
Florida	Dade Cnty FL School District	\$ 200,000	\$ 203,706	\$ 199,597
	Wachovia US			
Georgia	Treasury Mkt Fund	25,000	25,087	25,087
	Wachovia US			
North Carolina	Treasury Mkt Fund	50,000	50,050	50,050
Virginia	US Treasury Note	250,000	268,438	262,104
Total		<u>\$ 525,000</u>	<u>\$ 547,281</u>	<u>\$ 536,838</u>

INSURANCE PRODUCTS AND RELATED PRACTICES**Territory and Plan of Operations**

The Company is licensed in Missouri as a multiple-line carrier for property and casualty insurance under Chapter 379 RSMo (Insurance Other Than Life). The Company is also licensed in Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Georgia, Hawaii, Illinois, Indiana, Iowa, Kansas, Kentucky, Maine, Massachusetts, Michigan, Montana, Nebraska, New Jersey, North Carolina, North Dakota, Ohio, Oregon, Pennsylvania, Rhode Island, South Carolina, South Dakota, Tennessee, Texas, Vermont, Virginia, Washington, West Virginia and Wisconsin.

The Company specializes in writing lawyers professional liability insurance on a claims-made basis primarily for sole practitioners and small firms in Missouri, Kansas and Indiana. The business is produced by independent agents and brokers and the Company's wholly owned subsidiary, The Bar Plan Insurance Agency, Inc.

In 2002, the Company also wrote surety bonds in Florida, Georgia, Illinois, Indiana, Kansas and North Carolina. The Company plans to write surety bonds only until its wholly owned subsidiary, The Bar Plan Surety and Fidelity Company, can obtain the appropriate state licenses.

Policy Forms & Underwriting; Advertising & Sales Material and Treatment of Policyholders

The Missouri Department of Insurance has a Market Conduct staff that performs a review of these issues and generates a separate market conduct report. The most recent Missouri Market Conduct Examination covers the period of November 1, 1997 to October 31, 1998. The report disclosed no issues having a significant impact on the financial condition of the Company.

REINSURANCE

General

Premiums written during the period under examination were as follows:

	<u>2000</u>	<u>2001</u>	<u>2002</u>
Direct	\$ 8,853,724	\$ 9,699,113	\$ 12,625,909
Reinsurance Assumed	-	-	-
Reinsurance Ceded	<u>2,926,172</u>	<u>3,751,371</u>	<u>5,118,307</u>
Net Premiums	<u>\$ 5,927,552</u>	<u>\$ 5,947,742</u>	<u>\$ 7,507,602</u>

Assumed

The Company did not assume any reinsurance during the period under examination.

Ceded

The Company reinsures lawyers professional liability risks in excess of \$250,000 each claim each policy under excess of loss treaties.

The Company began writing lawyers professional liability business in Kansas in 1997. For policy years 1997 to 1999, sixty percent (fifty percent for policy years 2000 and 2001) of the first \$250,000 each claim was reinsured under a quota share treaty.

The Company began writing lawyers professional liability business in Indiana in 2001. For policy years 2001 and 2002, fifty percent of the first \$250,000 each claim was reinsured under a quota share treaty.

The Company cedes fifty-percent of the indemnity written with a maximum retention of \$250,000 per bond under a non-contract surety bond pro rata treaty. The Company warrants that it will not write bonds with a penal sum in excess of \$2,000,000. Bonds with a penal sum in excess of \$2,000,000 may be submitted facultatively.

ACCOUNTS AND RECORDS

The Company's financial statements for the years under examination were audited by PricewaterhouseCoopers LLP, Certified Public Accountants. Reserves and related actuarial were reviewed and certified by John R. Kryczka, FCAS, FCIA, MAAA, associated with the firm of PricewaterhouseCoopers LLP.

FINANCIAL STATEMENTS

The following financial statements, with supporting exhibits, present the financial condition of the Company as of December 31, 2002, and the results of operations for the year then ended. Any examination adjustments to the amounts reported in the annual statement and/or comments regarding such are made in the "Notes to the Financial Statements," which follow the Financial Statements.

There may have been additional differences found in the course of this examination, which are not shown in the "Notes to the Financial Statements." These differences were determined to be immaterial in relation to the financial statements, and therefore were only communicated to the Company and noted in the workpapers for each individual annual statement item.

ASSETS

	Assets	Assets Not Admitted	Net Admitted Assets
Bonds	\$ 23,950,671	\$ -	\$ 23,950,671
Common stocks	7,499,007	-	7,499,007
Properties occupied by the Company	1,623,300	-	1,623,300
Cash and short-term investments	3,133,404	-	3,133,404
Premiums and agents' balances in course of collection	2,294,478	10,605	2,283,873
Reinsurance recoverable on loss and loss adjustment expense payments	31,383	-	31,383
Federal income tax recoverable (including \$522,245 net deferred tax asset)	1,369,961	847,716	522,245
Guaranty funds receivable or on deposit	267,173	-	267,173
Electronic data processing equipment and software	511,677	482,294	29,383
Interest, dividends and real estate income due and accrued	303,708	-	303,708
Receivable from parent, subsidiaries and affiliates	73,324	-	73,324
Other assets nonadmitted	31,945	31,945	-
Profit commission receivable	387,601	-	387,601
Deductible receivable	75,129	-	75,129
Due and accrued service charges	70,115	-	70,115
Cash value of life insurance	61,798	-	61,798
Other assets	5,715	4,985	730
Totals	<u>\$ 41,690,389</u>	<u>\$ 1,377,545</u>	<u>\$ 40,312,844</u>

LIABILITIES, SURPLUS AND OTHER FUNDS

Losses	\$ 8,792,564
Loss adjustment expenses	5,006,534
Commissions payable, contingent commissions and similar charges	70,715
Other expenses	165,418
Taxes, licenses and fees	150,984
Federal and foreign income taxes	610,550
Unearned premiums	4,064,265
Advance premiums	1,065,637
Ceded reinsurance premiums payable	686,155
Amounts withheld or retained by Company for account of others	5,231
Unprocessed premiums	120,009
Guaranty fund payable	197,178
Unclaimed funds	46,773
Amount owed trustee	<u>38,042</u>
Total liabilities	21,020,055
Policyholder contributions	\$ 2,783,500
Unassigned funds	<u>16,509,289</u>
Surplus as regards policyholders	19,292,789
Totals	<u><u>\$ 40,312,844</u></u>

STATEMENT OF INCOME

Premiums earned	\$ 6,887,869
Losses incurred	1,690,932
Loss expenses incurred	2,009,460
Other underwriting expenses incurred	<u>2,846,572</u>
Total underwriting deductions	6,546,964
Net underwriting gain (loss)	340,905
Net investment income earned	1,313,808
Net realized capital gain or (losses)	<u>24,522</u>
Net investment gain (loss)	1,338,330
Finance and service charges not included in premiums	170,952
Miscellaneous income	<u>140,675</u>
Total other income	311,627
Net income before dividends to policyholders and before federal and foreign income taxes	1,990,862
Dividends to policyholders	<u>-</u>
Net income after dividends to policyholders but before federal and foreign income taxes	1,990,862
Federal and foreign income taxes incurred	<u>630,000</u>
Net income	<u><u>\$ 1,360,862</u></u>

CAPITAL AND SURPLUS ACCOUNT

Surplus as regards policyholders, beginning of year	\$ 18,608,438
Net income	1,360,862
Net unrealized capital gains or (losses)	(1,104,965)
Change in net deferred income tax	872,113
Change in nonadmitted assets	(448,716)
Surplus adjustment paid in	(51,500)
Prior period federal income tax adjustment	<u>56,557</u>
Change in surplus as regards policyholders for the year	684,351
Surplus as regards policyholders, end of year	<u><u>\$ 19,292,789</u></u>

NOTES TO FINANCIAL STATEMENTS

None.

EXAMINATION CHANGES

None.

GENERAL COMMENTS AND/OR RECOMMENDATIONS

None.

SUBSEQUENT EVENTS

On December 31, 2003, TBP Holding Company, Inc., a wholly owned subsidiary of the Company, sold all the outstanding common stock of The Bar Plan Title Insurance Company to Reliant Holding Company of Prairie Village, Kansas. At that time, The Bar Plan Title Insurance Company changed its name to Guarantee Title Insurance Company.

ACKNOWLEDGMENT

The assistance and cooperation extended by the officers and the employees of The Bar Plan Mutual Insurance Company during the course of this examination is hereby acknowledged and appreciated. In addition to the undersigned, Art Palmer, examiner for the Missouri Department of Insurance, participated in this examination. R. Glenn Taylor, ACAS, MAAA, associated with Taylor-Walker & Associates, Inc., reviewed the reserves and related actuarial items.

VERIFICATION

State of Missouri)
) ss
County of Cole)

I, Walter A. Riesenberg, on my oath swear that to the best of my knowledge and belief the above examination report is true and accurate and is comprised of only facts appearing upon the books, records or other documents of the Company, its agents or other persons examined or as ascertained from the testimony of its officers or agents or other persons examined concerning its affairs and such conclusions and recommendations as the examiners find reasonably warranted from the facts.

Walter A. Riesenberg, CFE
Examiner-in-Charge
Missouri Department of Insurance

Sworn to and subscribed before me this ____ day of _____.
My commission expires:

Notary Public

SUPERVISION

The examination process has been monitored and supervised by the undersigned. The examination report and supporting workpapers have been reviewed and approved. Compliance with NAIC procedures and guidelines as contained in the Financial Condition Examiners Handbook has been confirmed.

J. Douglas Conley, CFE, FLMI, CIE, AIAF, ARE
Audit Manager, St. Louis
Missouri Department of Insurance

ADDENDUM

Actuarial Examination